

86th Legislative Session – 2011

Committee: Joint Appropriations

Wednesday, January 19, 2011

P - Present
E - Excused
A - Absent

Roll Call

E Sutton
P Haverly
P Heineman
P Novstrup (Al)
P Peters
P Putnam
P Rampelberg
E Dennert
P Wismer
P Juhnke
P Bolin
P Romkema
P Dryden
P White
P Tidemann
P Carson
P Brown, Vice-Chair
P Wink, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Representative Dean Wink.

Unemployment Insurance Trust Fund Briefing

Ms. Pam Roberts, Secretary of the Department of Labor, introduced staff present at the meeting – **Mr. Don Kattke**, Director of the Unemployment Insurance Division; **Ms. Dawn Dovre**, Public Information Officer; and **Ms. Pauline Heier**, Data Validation Director.

Mr. Kattke stated that the goal of the Unemployment Insurance Division is to provide temporary unemployment insurance (UI) benefits to people who lost work at no fault of their own until they are able to obtain work again.

Distributed was a handout entitled “Unemployment Insurance Trust Fund” (**Document #1**). Secretary Roberts informed the committee that the Department of Labor (DOL) provided comparisons of data from the last week in December 2007 (before the recession started), December 2008 (start of the recession), December 2009, and December 2010.

Secretary Roberts explained that the UI claimants are all the South Dakota residents receiving UI benefits – both federal and state UI benefits. The state claimants are only the claimants that are receiving benefits from the State UI Trust Fund. In response to committee questions, Mr. Kattke stated that the difference is the number of claimants receiving federal fund benefits. There was an increase in the federal benefits allowing a claimant to receive an additional 34 weeks of federal benefits for a total of 60 weekss of UI benefits. The additional federal benefits will expire in 14 months.

In 2009, the DOL paid over \$1.2 million per week in benefits; double the normal benefits paid. Secretary Roberts noted that the UI payments are currently under \$1 million weekly. The UI Trust Fund balance at the end of December 2010 was \$26.1 million – slightly higher than the average balance of \$24 million.

In response to Senator Bruce Rampelberg’s question, Mr. Kattke informed the committee that state general funds are not used for the UI benefits payments. Employers are taxed a UI rate which the funds go directly to the DOL. The funds then are transferred to the US Treasury and placed in an account. When claims are filed, the state is able to draw back money to pay the UI claimants.

Secretary Roberts noted that the number listed on the slide for job openings for the last week of December 2009 should be 5,548 (not 9,016).

Secretary Roberts stated, in response to Senator J.E. “Jim” Putnam’s question, that it could take four to five more years for the jobless recovery in the state to get back to the number of jobs in 2007. She distributed a chart entitled “South Dakota Nonfarm Wage & Salaried Workers Seasonally Adjusted” (**Document #2**). Secretary Roberts said that the special skills industries were areas that lost the most jobs. She provided the example of mining, logging, and construction which lost 2,700 jobs (-11.5%) between 2007 and 2010.

Mr. Kattke commented that the chart on page 3 of Document #1 shows the weekly UI benefit paid trend from 2007 to 2010. The red line is 2007, the normal pattern of UI claims, with the highest payments being January and February due to seasonal workers. The blue line is 2008,

which follows 2007 until November when the recession impacts South Dakota. The green line represents 2009 when the recession increased weekly UI payments to over \$1 million. Mr. Kattke noted that the March 2009 UI payments were \$1.7 million per week. The orange line represents 2010 which remained close to the 2009 payment levels until March 2010 when the payments neared normal levels. Currently, the UI payments are under \$1 million per week, but the DOL projects that the payouts will increase for the winter. He noted that the UI payments are significantly less than one year ago.

The chart on page 4 of Document #1 shows the financial summary for the UI Trust Fund for 2008 through 2011. Mr. Kattke said that contributions to the UI Trust Fund are made by the employers to the state at the end of each quarter. The first quarter ends March 31 and employer contributions are due by April 30.

In 2009, the state received \$5.9 million in federal stimulus funds as a trade off for the state extending UI benefits. An alternative base period was created which allows workers to qualify based on their most recent income. The stimulus funds provided temporary immediate assistance for the benefits expansion that will last 10-14 years at a cost to the state of \$400,000 annually. Mr. Kattke noted that the computerized system to calculate benefits allows for benefits to be paid out sooner.

Secretary Roberts commented that the UI benefits payments in 2009 totaled \$63 million; which doubled the payouts made in 2008. Even with the \$5.9 million in stimulus funds, the UI Trust Fund had a yearend balance of -\$7.7 million in 2009.

In 2011, the state received \$11.8 million in additional stimulus funds by complying with two federal requirements. The first was to codify that part-time workers received UI benefits. The other requirement was to create an extended training benefit – a person can receive an additional 26 weeks of UI payments if receiving training for a DOL approved high demand occupation. The UI Trust Fund received \$11.8 million in federal stimulus funds at a cost of \$400,000 – \$500,000 annually to South Dakota. The additional benefits will be funded for about 20 years.

Senator Al Novstrup asked if the increased benefit requirements to receive additional federal stimulus funds were temporary. Secretary Roberts stated that the increased benefit requirements are not temporary and that there is no grandfather clause included. The UI Advisory Council will be reviewing the concept to reduce the benefits over the next year and will include the findings in the next annual report.

In response to Representative Dan Dryden's question, Secretary Roberts stated that South Dakota borrowed money from the federal UI Trust Fund to pay the state UI benefits. Because a surcharge was implemented, the state received enough revenue to repay the \$24 million loan.

Mr. Kattke explained that the surcharge was triggered on October 1, 2009, because the UI Trust Fund got below the \$11 million threshold. This surcharge is paid by every employer in the state in addition to the regular UI contributions. In 2010, the surcharge generated \$3.8 million in the first quarter, \$16.3 million in the second quarter, \$7.1 million in the third quarter, and \$400,000 in the fourth quarter. Because the UI Trust Fund balance reached \$15 million on June 30, 2010, the surcharge dropped from 1.5% to 1% in 2010. The surcharge was at 1% for the first quarter and second quarter wages. Since the UI Trust Fund reached \$15.9 million, the surcharge dropped to 1/10th of one percent on third quarter wages which resulted in \$400,000 surcharge revenue for the fourth quarter. The surcharge was triggered off on September 30, 2010, and DOL projects that the trigger will not be needed again since the UI trust Fund balance is high enough.

Secretary Roberts stated, in response to Senator Putnam's question that the UI Trust Fund does not have a cap. The UI Advisory Council determined that the UI Trust Fund should be at \$75 million to sustain and not need any addition enhancements.

Representative Susan Wismer asked about tracking the employment information for the claimants that received the additional training program benefits. Secretary Roberts stated that the federal grant requires that the employment information for all claimants in the training program be documented. Since the training program just started in July 2010, the DOL does not have much information to report at this time.

Secretary Roberts stated that the UI Advisory Council is a nine member committee that creates an annual report, which is provided to the Legislature every October.

Senator Deb Peters asked if there is a method for employers to buy-down their UI rate. Mr. Kattke stated that the employers are notified of an opportunity to make a one-time advanced payment for the year. The DOL will look as possibly adding language to the March report informing employers of this option. The automatic system on the internet may not be changed before the March report.

MOTION: ADJOURN

Moved by: Peters
Second by: Haverly
Action: Prevailed by voice vote.

Lisa Shafer
Committee Secretary

Dean Wink, Chair